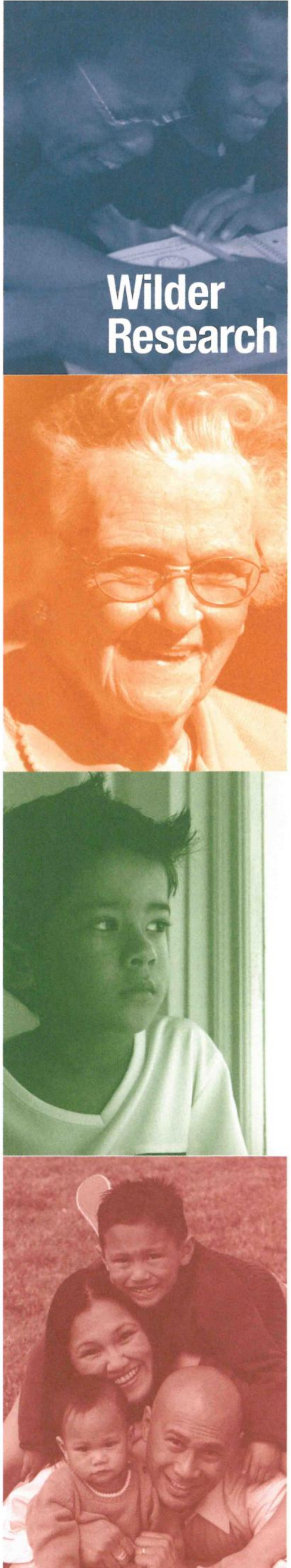

What do we know about nonprofit mergers?

Findings from a literature review, focus group, and key informant interviews

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MAP
for nonprofits

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Joint research project of MAP for Nonprofits and Wilder Research

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Summary

In recent years an increasing number of nonprofits are considering a strategic restructure or merger to leverage resources, enhance services, or become more cost effective.

To help organizations and their funders assess merger as an option, MAP for Nonprofits has joined with Wilder Research to conduct a multi-phase study to identify factors that influence merger outcomes and characteristics of successful mergers.

This report summarizes findings from the first phase of the study. It builds on work previously done by MAP for Nonprofits which published *MergeMinnesota* (Reed & Dowd, 2009). It will be used to help frame an in-depth study of 40 merged nonprofit human service organizations.

Research methods used for this study

A literature review, key informant interviews, and a focus group were conducted to inform this study. Key informant interviews were conducted with executive directors, funders, and key leaders in mergers. The focus group included attorneys and consultants, financial professionals, foundation representatives, and nonprofit leaders who have been involved with merger activities. Forty-two research articles and books, including studies based on a systematic collection of data through surveys, secondary data, focus groups, or key informant interviews, were reviewed.

Findings

Methods for classifying and defining mergers and strategic restructuring

Structural realignments of nonprofit organizations are often grouped into **alliances,** which do not involve change to the corporate structure, or **integrations**, which do. They include management service organizations, joint ventures, parent/subsidiary relationships, and mergers. For purposes of this research study**, a merger is defined as an integration or combining of two or more separate organizations into one legal entity. Under this definition, program, administrative, and governance functions are all combined.**

Reasons for considering a merger

There are a variety of reasons organizations consider merging, including preserving the mission, improving existing services, and expanding services. Sometimes external events trigger a merger. Today's difficult economic climate has adversely affected funding and services for many organizations. These organizations may consider a merger to develop greater organizational efficiencies related to programming, administrative capacity, or fundraising.

An organization may believe a merger will engage community leaders or board members, or increase their community profile. One of the most frequent events that trigger merger considerations is the loss of an executive, especially if it is a long-serving executive. In this case, an organization may consider a merger to benefit from the leadership of another organization.

Factors thought to affect merger success

Factors are classified in three stages: pre-merger, merging process, and post-merger. The factors are summarized in a figure starting on page 48 of the full report.

Stage 1: Pre-merger

The pre-merger stage is a time of internal assessment and consideration of which other agencies might be viable merging partners. There are **12** factors identified in this review that are associated with the pre-merger stage. They can be grouped into four categories:

1A. Financial soundness of the merging organizations

Many nonprofits **explore mergers to improve their financial standing** for short-term survival or long-term viability. However, organizations need a certain level of **financial stability prior to a merger** in order to be a successful merger partner. Experts warn that it may be too late for organizations to consider a merger if they are in a desperate financial crisis. In addition, agencies and boards need to be aware of the **monetary costs of considering and implementing a merger**.

1B. External conditions

External conditions, including **environmental changes** (e.g., the current unstable economic environment) and **increased competition for resources**, change the operating environment **so nonprofits favor restructuring or choose merger for stability or survival**. **Funder pressure or encouragement to consolidate or merge** is also a factor within this stage.

1C. Organizational structure

Factors related to organizational structure include **physical characteristics** such as size, budget, and life span. In addition, it is important to be aware of factors related to **compatible values** in terms of mission, strategy, and culture. The literature also suggests that mergers will be more successful when there is a **positive pre-merger relationship among executive leadership of the organizations**.

1D. Leadership

One factor associated with leadership during the pre-merger stage is the presence of **strong and committed leadership** who can visualize and articulate the importance of merging. Another factor is **absence or turnover in leadership**.

Stage 2: Merging process

The merging process focuses on how and under what conditions an organization might work with another and which organizational characteristics they wish to preserve. There are **10** factors identified in this review that are associated with the merging process stage. They can be grouped into four categories:

2A. Key stakeholder involvement

Key stakeholder involvement begins with an **executive staff champion** committed to the merger's success. Research indicates **board commitment,** possibly through a joint merger committee, is important and lack of board involvement can be detrimental to the process. Also, **organizations should consider how clients, consumers, and funders can be involved**.

2B. Role of staff in merger process

Because the success of the daily operations of a nonprofit organization is so dependent on the work of the front-line staff, it is logical that **staff involvement in planning** can increase the likelihood of a successful merger. Likewise, **communication with staff** throughout the process can build buy-in and good will and help diminish **staff's negative perceptions of the effects of the merger**.

2C. Integrating formal and informal structures

As organizations engage in the merging process they often consider factors related to **cultural integration**-how the merging organizations will bring together operational philosophies-which can be divergent. Similarly, **board and mission integration** is important to consider for moving forward.

2D. Providing due diligence to the process

A **clear decision-making process** and a **clear and realistic time frame** provide due diligence to the merger process. They help all parties involved gain a clear picture of the legal and financial status or each organization. An independent, unbiased consultant can add leadership to the decision making process by helping to develop a plan and identifying issues to be addressed.

Stage 3: Post-merger

During the post-merger stage, the merged entity begins to operate independently. Because nonprofit merger studies often end at the actual merger, there is limited information about the post-merger process and the effect that merger has on services provided by organizations. There are **eight** factors identified in this review that are associated with the post-merger stage. They can be grouped into four categories:

3A. Funding and support

Once the merger has taken place, the focus turns to **the financial stability of the newly-formed organization.** Research is contradictory about whether the financial status of an organization improves post-merger. Another focus of post-merger is **whether the organization improves its image, reputation, or public support**.

3B. Services

Two factors relevant to the post-merger phase related to services are the **preservation of services, or the expansion of service types** or service areas. Another consideration is whether the merger has **improved the quality of existing services,** either through more effective service delivery, more comprehensive services, or both.

3C. Climate and culture

There are two distinct post-merger organizational culture and climate factors. The first is post-merger **organizational identification** which describes how the staff and stakeholders relate to the merged organization. A second is the **conflict and morale issues** organizations experience following a merger.

3D. Organizational capacity and structure

Following a merger, organizations need to consider whether they have **increased operational efficiencies and economies of scale** including reducing overhead expenses or employing higher-skilled employees in more efficient ways. Another consideration is whether they better support the mission **because of structural changes within staffing, management, and governance.**

Conclusions

This review has identified a wide range of factors thought to influence the outcomes of nonprofit mergers and has demonstrated that there are significant challenges to the systematic study of nonprofit mergers. In particular, the factors thought to affect nonprofit mergers have not been measured in uniform ways.

To address these challenges, the factors identified here will help guide study design and data collection in a forthcoming 40-case demonstration study of merged nonprofit human service agencies which emphasizes:

- The clear operational definition of the key factors thought to influence merger outcomes
- Triangulation of methods using source documents, administrative data, multiple key informant interviews for each organization, and analysis of pre- and post-merger financial statements
- Survey instruments that build on the best strategies of previous research studies.

The next planned steps of the research study include: finalizing the sample of merged entities; collecting and reviewing documents such as financial records, 990 forms, and filings with the Secretary of State's Office; completing the data collection protocols; obtaining agreement to be a part of the study; and interviewing key individuals associated with mergers from the original organizations as well as the merged entities.

Introduction

Mergers are becoming a more common topic of discussion among nonprofit leaders, boards, and funders. Unfortunately, there is limited and disparate information about which factors affect the success of a merger between nonprofit organizations. To add to the current body of knowledge and develop information that is useful to funders and planners, MAP for Nonprofits engaged Wilder Research to conduct a multi-phase research study. This report summarizes findings from a literature review and qualitative data collection conducted in Phase 1 of a study designed to strengthen our understanding of the factors thought to affect merger outcomes. The findings discussed in this document will help frame Phase II, an in-depth study of 40 nonprofit human service organizations that have completed some form of integration (merger, acquisition, or consolidation) with one or more other organizations.

Background information

Despite an official end to the recession that began in 2007, the current economic climate remains difficult for many individuals and organizations. Nonprofit leaders have described this environment as a perfect storm, in which revenues have decreased at the very time the demand for services has increased. The number of nonprofits now involved in or considering some form of restructuring is growing. In fact, 12 percent of organizations responding to a 2010 survey about the effect of the nonprofit economy in the nonprofit sector said they had restructured or merged with another organization to reduce their budgets (McLean & Brouwer, 2010). Many funders are now asking how nonprofit organizations can become more cost effective, efficient, and avoid duplication of services.

A 2010 national study done by the Nonprofit Finance Fund found that 15 percent of respondents representing nonprofit organizations would currently like to receive help with collaboration or merger analysis. In addition, 50 percent of the respondents indicated an interest in collaborating on programs with other nonprofits (Nonprofit Finance Fund, 2010). According to respondents, this interest in collaboration and merging was fueled by a variety of factors including:

- Budget problems caused by funding cuts and unrealistic income projections
- Deteriorating board and staff functioning
- Lack of and/or need for infrastructure
- High stress level, hopeless atmosphere, low morale

- Many layoffs and decisions to not fill vacant positions
- Increased competition for limited dollars
- Client service efforts getting lost as energy is focused on organizational survival
- Boards not taking their fiduciary responsibilities seriously
- Decreased donor support and involvement

Nonprofits in Minnesota have also been affected by the current climate. Since 2007, the Minnesota Secretary of State has recorded almost 200 nonprofit organizations engaging in mergers or acquisitions and this number is expected to grow substantially over the next few years. In the face of this fact, many nonprofits have sought merger advice from a variety of sources including guidebooks, legal counsel, and leaders of similar organizations. To help organizations considering the merger process, Management Assistance Program (MAP) for Nonprofits published *MergeMinnesota* (Reed & Dowd, 2009), a step-by-step guide to mergers that includes expert interviews, a literature review, stories about mergers, and a comprehensive bibliography. The success of the guide shows that there is a growing need for solid information about what works when planning and pursuing mergers and other forms of strategic restructuring within and among nonprofit organizations.

The preparation of *MergeMinnesota* showed that little rigorous research exists to support the directions and choices that nonprofits must make when considering and carrying out a merger. Most of what is known has been accumulated as practice wisdom or based on case studies of individual mergers. As mergers become a more common strategy for some nonprofit organizations, questions remain about the factors that influence the outcomes of nonprofit mergers and the characteristics of successful mergers.

Research questions

The findings in this report are presented to answer the following four questions.

1. Is there a system for classifying and organizing various forms of strategic restructuring?

2. What is known about why organizations consider merging?

3. What is known about the range and types of factors thought to affect merger success? Specifically, which factors are most critical during the following stages:

   - Pre-merger
   - Merging process
   - Post-merger

4. Based on this review, what are the implications for future studies?

Merger definition

For purposes of this research study, a merger is defined as an integration or combining of two or more separate organizations into one legal entity. Under this definition, program, administrative, and governance functions are all combined. While the purpose of this review is to document the variables affecting mergers among nonprofit human service organizations, the literature review casts a wider net in order to learn from studies conducted about multiple types of restructuring by arts, cultural, and other forms of nonprofit organizations. Later in the report, the various forms of restructuring available to nonprofit organizations will be discussed.

Data sources

Literature review

In recent years, there has been increased attention to nonprofit mergers in a wide variety of publications including *The Chronicle of Philanthropy*, *The Nonprofit Times*, daily newspapers, and online blogs. These articles often describe the mergers of two organizations or provide advice about how to approach a merger.

To learn more about nonprofit mergers, Wilder Research staff conducted a review of research literature to more fully explore the range and types of previous research studies related to this topic. Research literature includes studies based on a systematic collection of data through surveys, secondary data, focus groups, or key informant interviews designed to answer specific research questions.

This review was conducted through a comprehensive search of publications from the last 20 years related to nonprofit mergers, acquisitions, and other forms of strategic restructuring. To locate materials, Wilder Research library staff searched multiple journal databases for research-based analyses of nonprofit mergers (e.g., MegaFile, Article First, Sage). Librarians conducted a web search of resources produced by leading organizations in the field of nonprofit management and capacity building (e.g., Foundation Center; The Forbes Fund; The Center for Nonprofit Management and Research; La Piana and Associates; The Bridgespan Group) as well as university programs specializing in nonprofit management and philanthropy (e.g., Center of Philanthropy and Public Policy at the University of Southern California and Mandel Center for Nonprofit Organizations at Case Western University).

The library staff also conducted a general web search using the Google search engine and specific web-based resources such as the Social Science Research Network. In addition, librarians also scanned nonprofit news publications such as *The Chronicle of Philanthropy* and *The NonProfit Times* for general information on nonprofit mergers. Although these articles typically do not report detailed research studies, they provide good background information about what is happening in the nonprofit sector.

In total, 42 research articles and books were reviewed as part of the literature review. Additional articles, including opinion pieces and guides prepared by various consultants, were read for background information. Once the research materials were identified, they were read and summarized by members of the research team using a coding strategy that classified each study by type of study (i.e., experimental, quasi-experimental, case studies, practice observations), publication information, type of realignment explored, number of organizations studied, factors examined, and outcomes reported. The data were then entered into a spreadsheet for sorting and analysis.

We found that about half of the research studies (23) were based on case studies ranging from one to 65 cases. The next most prevalent types of research were survey research (11) and practice observation studies (9). Two additional studies used simulation modeling methods as their research design and one could be considered a more rigorous research design known as quasi-experimental.

Based on the types of studies available, there are some limitations to the review. To begin with, the case studies provide excellent descriptive data of what happened before, during, and after specific mergers, but we are unable to determine if the results are isolated occurrences specific to those cases only, or useful for drawing more general conclusions. Another limitation of the data is that much of the research focuses on the motivations for merger and the merging process; presenting the completed merger as the final outcome rather than studying what changed for the organizations as a result of the merger. There was little information about established measures for determining the success of a merger and limited follow-up or longitudinal data available about the long term effects of mergers.

Survey research is a useful source of information about mergers, but much of the survey data appear to be based on convenience samples. Once again, this allows the authors to say what has happened with the mergers of specific organizations, but limits the ability of the authors to draw conclusions about causal factors. Finally, the last limitation of the research literature in this area is the fact that much of it is still exploratory and few researchers have entered this field with a systematic study approach. This limits the ability to make conclusive statements.

Qualitative data collection

Along with the review of existing literature described above, two primary qualitative data collection activities were implemented as part of proposal development. Data collection involved one focus group and six key informant interviews with individuals knowledgeable about nonprofit mergers.

On September 14, 2010, Wilder Research staff conducted a focus group with 14 professionals in the nonprofit sector who have extensive experience with integrations. Participants included attorneys and consultants who have assisted with or advised the merger process, financial professionals who specialize in nonprofit accounting, and foundation representatives who have helped fund merger activities. Some participants had also been directly involved in some form of integration or merger as a senior member of an organization or a board representative.

In addition to the focus group, six key informant interviews were conducted with individuals who had been involved as executive directors or key leaders in mergers.

The primary purpose of the qualitative data collection was to gather information from knowledgeable experts regarding the factors thought to affect the outcomes of nonprofit mergers and to learn about their experience in working with organizations considering merger. With them, we explored the primary reasons that an organization might consider merging, the role of consultants in the merger process, essential factors for a successful merger, barriers to mergers, and merger outcomes. The complete list of focus group and key informant questions is located in the appendix.

During the qualitative data collection, respondents provided firsthand accounts of experiences with mergers. For instance, a Twin Cities United Way vice president discussed the importance of involving funders in merger discussions and educating funders and the business community about the benefits of mergers to the nonprofit sector. Others stressed the need for a study like this and offered words of encouragement such as, “Don’t miss the importance of stories,” and a reminder of, “There are more variables than constants [in the process].”

The key informants were particularly useful in reminding the researchers to:

- Collect information about what people consider success in a nonprofit merger.
- Solicit information from a variety of backgrounds, but understand the sources of the information and what their perspectives or biases might be.
- Use the information to help boards and organizations understand the vulnerabilities of nonprofits and the potential benefits of mergers.
- Broadly disseminate the results of the study to nonprofit board members and executives who might be considering mergers.

Findings from the qualitative data collection are incorporated into the report where they shed light on the findings of the literature review.

Study findings

Methods for classifying and defining mergers and strategic restructuring

As structural realignments of nonprofit organizations become more frequent, it is important to understand the different restructuring options available to these organizations. One of the most useful studies for the classification of various forms of strategic restructuring among nonprofits is *Strategic restructuring: Findings from a study of integrations and alliances among nonprofit social service and cultural organizations in the United States* (Kohm, La Piana, & Gowdy, 2000). Although based on a convenience sample of 192 respondents, the participants in the study represent one of the few truly diverse samples of nonprofits, and the authors offer a useful taxonomy of restructuring models.

The two primary groupings described are **alliances,** which include administrative consolidations (35%) and joint programming (10%). These do not involve change to the corporate structure. The other form is **integrations**, which include management service organizations (18%), joint ventures (2%), parent/subsidiary relationships (3%), and mergers (32%). Integrations do involve changes to corporate structure or control. They are the focus of this review and research study.

According to Kohm, La Piana, and Gowdy's (2000) research, integrations typically involve fewer organizations and more often occur (74%) among organizations of the same type (human service, arts and cultural, or other). A management service organization (MSO) is an integration that includes the creation of a new organization in order to integrate administrative functions and improve administrative efficiency. A joint venture is an integration that includes the creation of a new organization to further a distinct administrative or programmatic goal of two or more organizations. In this type, partner organizations share governance of the new organization. A parent/subsidiary structure is an integration that includes the integration of some administrative functions and programmatic services. In this case, the goal is to increase the administrative efficiency and program quality of one or more organizations through the creation of a new (or designation of an existing) organization to oversee the administrative functions and programmatic services of other organizations. In this form, the visibility and identity of the original organizations often remain intact, but some organizations involved in this type of restructuring consolidate to the point where they appear to function much like a merged organization.

A merger is an integration that includes the integration of all programmatic and administrative functions to increase administrative efficiency and program quality of one or more organizations. Mergers occur when one or more organizations dissolve and become part of another organization's structure. The surviving organization may keep or change its name. A merger also occurs when two or more organizations dissolve and establish a new structure; however, this form is unusual. Much of what is often described as merger is actually a dissolution of one organization and acquisition by another, at times involving a name change that gives recognition to both entities. While the organizations that will be studied in Phase II of this research project may embark on different types of integrations, they will be referred to as mergers as long as there is an integration or combining of two or more separate organizations into one legal entity.

In the sample of organizations reported in the work of Kohm, La Piana & Gowdy (2000), the majority of human service organizations were involved in integrations and the majority of arts and cultural organizations were involved in alliances. Similarly, organizations involved in integrations were twice as likely to have larger total budgets (more than $500,000) than those involved in alliances. According to the authors, this finding suggests that integrations may require a degree of organizational capacity that smaller nonprofits simply lack.

The study also found that organizations involved in integrations were three times more likely to have used outside consultants to accomplish their objectives than organizations that created alliances.

Reasons for considering a merger

Organizations tend to consider merging either because they are looking to the future of the organization and are focused on preserving the mission and services, they are thinking about efficiencies and building capacity, or there is an internal or external event that increases the sense of urgency to do something that many might consider drastic.

One of the primary reasons organizations consider a merger is to preserve the mission of the organizations and therefore the services offered to fulfill the mission. In this situation, stakeholders feel that merging with another organization may help meet the demand for existing services, increase the quality and availability of services, or expand the services to a new geographic area or new and more diverse clients.

Another reason organizations consider merging is to develop greater organizational efficiencies. Efficiencies can be related to programming, administrative capacity, or fundraising. The research literature also suggests that organizations may consider merging in order to increase their ability to engage community leaders or board members, increase their community profile, or benefit from the leadership of another organization. In turn, these changes to operations can help the merged agency increase stability and meet the goal of preserving mission and services.

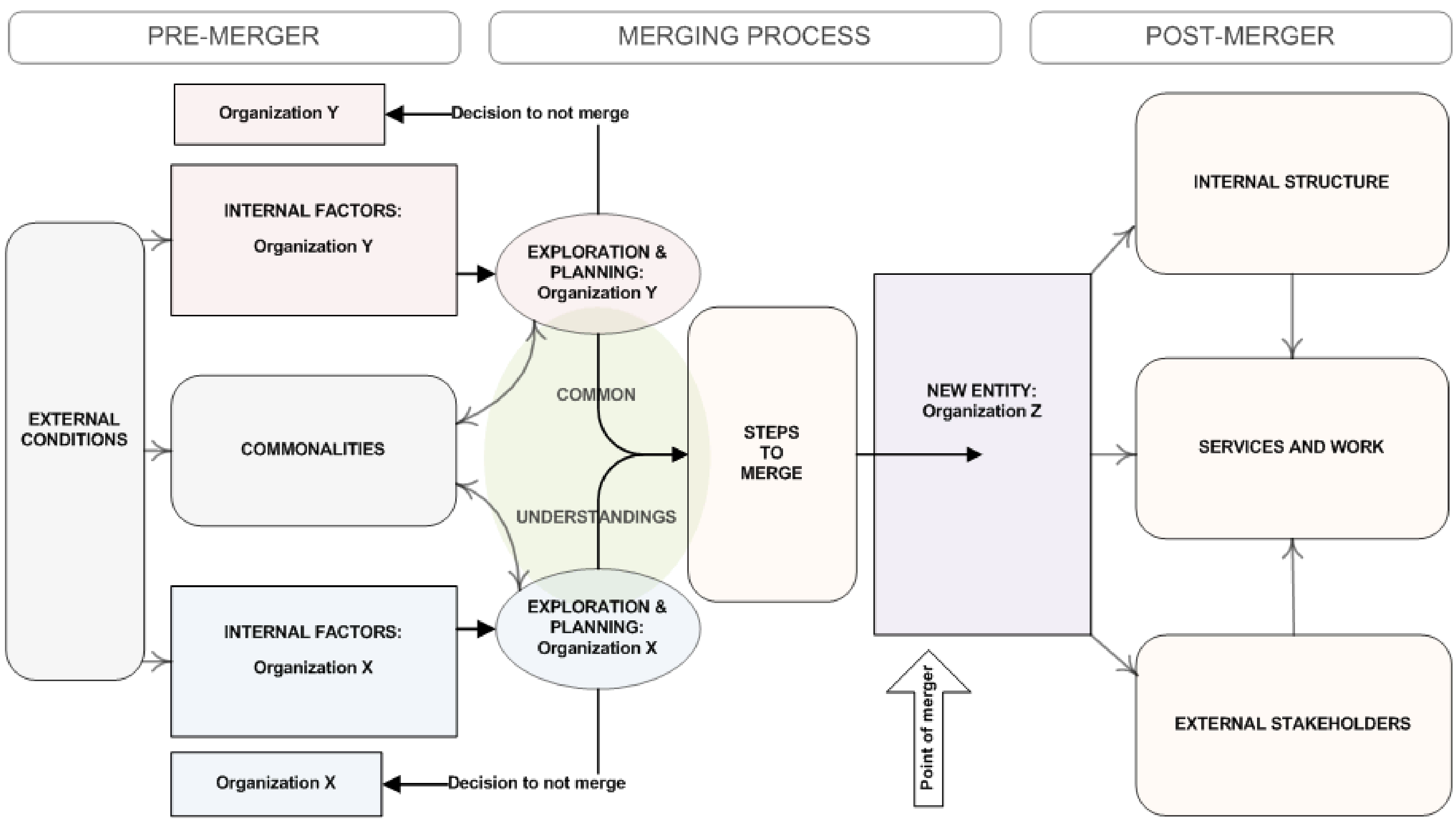
Events that can trigger a merger are often tied to economic factors including changes in funding or service users, or changes in the overall economy. However, one of the most frequent events that trigger merger considerations is the loss of an executive, especially if it is a long serving executive. Boards may consider this sort of vacancy the opportunity to look at new opportunities for an organization.

In considering why organizations choose to merge, it is important to note that literature as well as people who have experienced and studied mergers generally agree that cost savings is not a reason to merge. Mergers may result in efficiencies and new management practices, but consultants and researchers agree that saving money should not be a key motivator for merging. Additionally, while organizations may consider mergers to ensure that an organization survives, the focus group and key informant respondents agree that a decision to restructure should not be based on a sense of desperation regarding the situation of one or both organizations. They warn that it may be too late for organizations to consider a merger if they are already mired in financial crisis.

Factors thought to affect merger success

For purposes of this review it is useful to divide the merger process into three stages: pre-merger, merging process, and post-merger. A pictorial representation of this process is presented below. Within these stages, this review has identified specific factors relevant to the eventual success of a nonprofit merger. While the activities in each stage may differ in individual merger situations, informants stress that working through each of the stages is imperative to the success of a merger.

1. Logic of nonprofit merger processes



The pre-merger stage is a time of internal assessment and consideration. It is the period during which there is an opportunity for organizations to consider factors such as their motivation for restructuring, current financial situation, external pressures, and existing leadership. During this stage, organizations also consider which other agencies might be viable merging partners, specifically thinking about clients, services offered, geography, and mission.

Once an organization has determined that there is value in exploring a merger or some form of strategic restructuring, they enter the merging process. This stage focuses on how and under what conditions an organization might work with another and which characteristics they will seek to preserve in their own organization. At a fundamental level, this is the time when organizations assess the risks and benefits of a potential merger partner. In going forward, they will consider how the merger might happen, who will be involved, how communication with staff and stakeholders will be handled, and how the board, culture, and mission will be integrated.

During the post-merger stage, the merged entity begins to operate independently. Organizational culture and staff are brought together, executive leadership is exercised, services are blended or restructured, administrative and staff roles are refined, and operating kinks and glitches are worked through. At this point there is often an emphasis on sources of ongoing financial support, leadership and training, as well as the redefinition of organizational culture for both staff and clients. The process of becoming "settled" as a new entity may take several years.

Stage 1: Pre-merger

1A. Financial soundness of the merging organizations

Three somewhat contradictory themes regarding fiscal soundness of nonprofit organizations emerge from the research literature on mergers. These include the potential for increased fiscal stability as motivation for organizations to merge, the imminent fiscal stability (or solvency) of the merging organizations, and the significant monetary costs of merging.

1A1. Fiscal stability as a motivation to merge

Merging organizations are often motivated to merge by the potential for increased financial stability (Cortez, Foster, & Malway, 2009; Ferris & Graddy, 2007; Linse, 2010; Pietroburgo, 2004; Pietroburgo & Wernet, 2004, 2010; Wernet & Jones, 1992). A national study of hospice organizations found that those organizations pursuing restructuring did so with a "primary goal of enhanced economic status" and "that the motivation for restructuring was not driven by the prospect of organizational demise, but rather by an objective of bolstering an already solid economic base" (Pietroburgo, 2004, p. 214).

This suggests that imminent insolvency is often not one of the main motivators for nonprofit merger, but that a more strategic approach to financial viability in the long-term can be a key motivation. Pietroburgo and Wernet (2010a, p. 79) also point out in their research on hospice, that "organizations pursued restructuring from positions of economic strength in an effort to achieve even greater financial stability."

However, Cortez et al. (2009) in their paper to the Bridgespan group, say that financial distress, or a need to stabilize, is a leading motivator to merge while others (Campbell, 2008b) discuss merger as a means to address financial distress that may pose a threat to organizational survival. Pietroburgo (2004, p. 210) also shows internal "financial pressures" as the second most cited reason (out of 26 offered) for seeking merger.

Despite the level of distress or strategic foresight, and whether or not financial stability is being achieved or strengthened, it is clear that one of the most common motivations for nonprofits to merge is to improve their financial standing to ensure either short-term survival or long-term viability. As part of the focus group, the local experts also made this delineation between the "extreme distress of not meeting payroll" and those organizations that "are just diminished because they have been nickeled and dimed over the last several years" and noted that organizations are more viable merger candidates before they reach that extreme distress.

1A2. Fiscal stability of pre-merger organizations

Although the promise of fiscal soundness is a motivating factor for many nonprofit organizations considering merger (Cortez et al., 2009; Ferris & Graddy, 2007; Linse, 2010; Pietroburgo, 2004; Pietroburgo & Wernet, 2004, 2010a; Wernet & Jones, 1992), there are some opposing views that merger does not ultimately provide financial benefit to an organization (Hung, 2009) and that merging organizations should be fiscally stable (i.e., not imminently insolvent) before merger. Ferronato & Perryman (2003, p. 13) describe this as each of the partners "walk[ing] to the common table out of a position of strength."

In their study of national hospice organizations, Pietroburgo and Wernet (2004) argue that organizations considering restructuring have, among other traits, self-sufficiency in operations and finances. They state:

> Compared to those [hospice organizations] that did not restructure, structuring organizations tended to have larger budgets, more stable fiscal and volunteer resources, stronger referral bases, and greater demand for their services. Unlike earlier studies that found restructuring to be a survival tactic when resources are diminished (Wernet and Jones, 1992), the experience of these agencies suggests that restructuring is an avenue for continued growth. The motivation for restructuring was not driven by the prospect of organizational demise, but rather by an objective of further bolstering the organization's already solid economic status (pp. 134-135).

In their earlier work, Wernet and Jones (1992, p. 377) suggest that "in the nonprofit sector, mergers and acquisitions occur as a strategy for addressing resource scarcity and environmental uncertainty." In the context of the recent economic downturn, later work from Pietroburgo and Wernet (2010b, p. 32) regarding association mergers suggests that "organizations might have previously considered merger as a strategy of opportunity and growth, but it is these crucial economic challenges to long-term viability that may prompt a substantive move to join forces."

As the financial positions of many nonprofits have declined due to the recent economic events, it is logical that more nonprofits are turning to merger as a means for survival or solvency (Pietroburgo & Wernet, 2010b). However, the responses from local merger experts as part of this study's focus groups and interviews suggest that the need for a certain level of financial stability in merging organizations is still a very important attribute of a successful merger partner. One key informant said:

> A lot of times [merger] is financially driven, but that is unfortunate. An agency should become aware, when it is becoming weak, and then consider a merger. The earlier upstream that it is considered, the healthier and more successful it is going to be.

1A3. The monetary costs of considering and implementing a merger

Another pre-existing financial implication of merger is the inherent direct monetary costs associated with the logistics, consultation, and implementation associated with merging (Ferris & Graddy, 2007; Hung, 2009; Linse, 2010; Yankey, Jacobus, & Kooney, 2001). Furthermore, Linse aptly suggests that the monetary costs associated with merging are not all direct cash allocations. The opportunity costs associated with reduced or reallocated organizational capacities are also likely to be a real and significant factor of financial stability as organizations explore merger.

These monetary costs of merger are realized in practice as described through a first-hand experience with the merger of the *Grassroots Fundraising Journal* and the Grassroots Institute for Fundraising Training (GIFT):

> There's a myth that merging is a great way to save money. This may or may not be true in the long run, but in the beginning merging actually costs money. The new, merged GIFT is a relatively small organization with a budget of around $500,000. Before the merger was officially completed, we spent $30,000 on legal services, a consultant for negotiations, a consultant to help us merge our organizational cultures, moving the original GIFT office from Denver to Oakland, a new logo and collateral materials, a new website, and an accountant to get our financial books in order. Those costs don't include the substantial amount of staff and volunteer time spent on the merger (Hung; 2009, p. 7).

Ferris and Graddy (2007) also note these significant costs and propose nonprofits need external help to reduce their impact.

> Merging two organizations into one is a costly process. And, with lack of access to capital markets, it is difficult for financially strapped nonprofit organizations or those of modest size and capacity to absorb the costs. Of course, third party sources could underwrite the costs of nonprofit mergers through grants and technical assistance, and we observed this in one of these cases (p. 16).

Focus group participants also commented on the costs of a merger:

> We tend to forget about the cost of merger in the process. For example, the savings of having one CEO as opposed to two CEOs is absorbed in the cost of the merger and the cost of the reconfiguring systems. It's just incredible the cost attached to all that change in infrastructure.

1B. External conditions

External conditions are important aspects of the pre-merger stage as they both influence nonprofits to choose merger as well as change the operating environment to favor this type of restructuring. The specific factors related to external conditions that are discussed include organizations choosing merger for stability or survival, funder pressure to consolidate, increased competition for resources, and environmental changes.

Evidence suggesting the influence of these external conditions is primarily comprised of case studies and survey research; however, it also includes more rigorous research study of 192 nonprofit organizations (La Piana and Kohm, 2003).

1B1. Motivation for organization to stabilize and survive to meet community needs

In recent years, organizations have responded to various external conditions by considering or engaging in merger (Campbell, 2008a; La Piana, 2010; Norris-Tirrell, 2001; Pietroburgo & Wernet, 2010a). In the face of an increasingly unstable environment, nonprofit leaders are often prompted to begin merger conversations to promote organizational stability or even for survival in order to continue to meet community needs.

At times, merger is a last resort for organizations that would likely cease to exist without such action. When asked about priorities, the CEO of one merged organization highlighted organizational survival as a primary motivator.

> I feel very strongly about the need to provide services to children and families. I knew that mission was at risk, so what personally motivated me was to find a solution,…and the merger, I felt, was what would enable that mission to survive. (Golensky & DeRuiter, 2002, p. 177)

La Piana (2010) gives the example of Pediatricare, a nonprofit organization that, in 1994, was on the verge of shutting down its mental health services for families experiencing serious illness. The two psychologists running the organization were overextended trying to meet the need for their work in the community. Pediatricare then merged with the larger multi-service organization, East Bay Agency for Children, allowing Pediatricare to continue their services.

1B2. Funder pressure to consolidate

Funder pressure to consolidate is one of the most frequently cited external factors that influence organizations to merge. This may be through either direct or indirect pressure from both current and prospective funders (Dalhoff & Bugg, 2009; La Piana & Kohm, 2003; Linse, 2010; Singer & Yankey, 1991). Focus group participants agreed that organizations may feel pressure to merge by external stakeholder, either customers or funders.

This is because funders are increasingly requiring beneficiaries to complete measures that keep them accountable for efficient use of resources and delivery of services. La Piana and Kohm (2003) draw from a national study and consulting experience as they discuss the changing role of funders:

> In our many contacts with executive directors, staff members, board members and, in some cases, funders themselves, we have heard that funders are concerned about efficiency. Public agencies are looking for ways to reduce the cost of contracting with nonprofits by trimming the number of contractors. Private funders – faced with funding requests from many nonprofits providing similar or complimentary services – often feel organizations can operate more efficiently if they work together (p. 17).

Organizations may feel pressure from a formal request to document the efficiency of their organizations, which can be difficult for small organizations who, in turn, consider the option of restructuring to meet those requirements and maintain funding (Dallhoff & Bugg, 2009):

> Funders are using evidence-based decision making and increasingly allocating resources to where they are most effectively employed. As a result, agencies are being asked to demonstrate not only need but also the efficiency and effectiveness of their organizations. This has caused some agency leaders, particularly those of smaller organizations with limited resources, to explore alternative ways of structuring (p. 20).

More indirect encouragement occurs when funders offer technical assistance or other incentives for organizations to explore or complete a merger.

In contrast, it is important to note that in an earlier study, Kohm, La Piana, and Gowdy (2000) found that pressure from funders was actually less likely to be mentioned as a motivating factor than other reasons. This may reflect a change in funder behavior over the past decade.

1B3. Increased competition for resources

One reason cited for nonprofit mergers is organizations' dependency on a limited number of funding streams, which increases vulnerability to environmental changes. Nonprofit organizations have chosen to adapt to the challenge of increased competition for resources which contributes to funder dependency and potentially organizational instability. La Piana and Kohm (2003) note that the number of nonprofits grew by 115 percent in the last quarter of the 20th century; outpacing private sector growth by 39 percent.

With heightened competition, organizations may seek partnerships to better position themselves to compete for available funding streams. In addition to an increase in the number of nonprofits, the competitive environment is intensified by the economic downturn and resulting decline in charitable resources. In a 2008 follow-up survey of nonprofit hospice organizations, Pietroburgo and Wernet found that respondents cite increased competition as a major motivation for engaging in restructuring, a contrast with the baseline study of 2002.

> Contemporary organizations frequently overlap in services, territories, and missions. Competition with other nonprofit organizations, as well as for profit and governmental providers, has posed a challenge for struggling organizations to meet their program goals. (Pietroburgo & Wernet, 2010a, p. 69)

Along with competition from other nonprofit organizations, human service agencies are finding themselves competing with for-profit organizations that are providing similar services. This is one result of the Welfare Act of 1996, which gave local government the ability to choose for-profits providers for certain social services (Ferris & Graddy, 2007). Managed care techniques along with more recent government policies, such as vouchers, have led nonprofits to consider merger as an option as well (Kohm, La Piana, and Gowdy, 2000).

During the key informant interviews, several people also referred to the current economic environment and a change in an organizations' ability to raise funds as a factor contributing to increased interest in mergers.

1B4. Environmental changes (Including technology, government policies and vouchers)

While funder pressure and resource competition were the most frequently cited external factors, on a less recurrent basis the literature mentions other environmental changes that act as motivations for merger. These include a negative economic climate as well as technological advances (Campbell, 2008a; Golensky & DeRuiter, 2002; Pietroburgo & Wernet, 2004; Pietroburgo & Wernet, 2007).

One environmental change connected to increased competition for funding is economic decline. This may lead organizations to consider merger as a way to access limited funding or to combine resources. La Piana (2010) describes these economic influences in this way:

> Most nonprofits respond to what economists call market failure. Nonprofits provide desperately needed services to constituents who lack the means to pay the full cost. Government and private funders must then bridge the funding gap. In bad economic times these third-party payers pull back, leaving nonprofits with inadequate funding – often at the very moment they are experiencing increased demand for their services (p. 30).

With advances in the area of technology and communications have come changes in the way that organizations operate and their autonomy. Dallhoff and Bugg (2009) mention that technological changes have blurred territorial lines and made organizational partnerships, possibly including mergers, more viable. They give this example:

> For example, when people live in one community and work in a neighbouring community, it is harder to determine where donor funds are coming from and where they should be allocated. Agreements between neighbouring agencies about where one territory stops and another begins start to make less sense than partnering and sharing in the fundraising effort (pp. 20-21).

1C. Organizational structure

Organizational structure involves descriptions and analysis of the organizations engaging in mergers, how they operate, and their relationship with potential partner organizations. This is an important aspect of the pre-merger stage and is examined using the following factors: organizational characteristics, compatibility, and pre-merger relationship between or among leaders.

1C1. Characteristics of organization (size, operation time, budget)

Organizational characteristics can play a significant role in determining whether or not nonprofits choose to pursue merger as well as in the overall success and ease of the merger process. The most commonly discussed characteristics include the size, age, and financial status of each organization. These are often discussed both independently and comparatively (Campbell, 2008b; Ferronato & Perryman, 2003; Pietroburgo, 2004; Pietroburgo & Wernet, 2010a).

Larger organizations seem to be more likely than smaller organizations to merge. Reasons for this may include increased capabilities to carry out a merger due to stronger finances, greater flexibility in time allotted to merger activities, and more potential partnerships due to past relationships and reputation (Ferronato & Perryman, 2003; Kohm & La Piana, 2003; Pietroburgo, 2004; Yankey et al., 2005). However, one key informant said that organizations with budgets under $5 million should consider merging because they probably do not have the resources to support their mission well or retain talented staff.

Kohm & La Piana (2003) suggest that large organizations may also want to take advantage of the specialization of a smaller organization by merging with them in order to better position themselves for funding opportunities. They also suggest that larger organizations may seek merger to increase their capacity in more specific ways:

> Moreover, large institutions may be interested in forming partnerships with smaller groups to benefit from their expertise in particular areas in which funders are interested. For example, a large child welfare agency that has traditionally focused on foster care may consolidate with a smaller organization with expertise in adoptions to be able to show funders that they offer a range of child welfare services (p. 14).

In *Giving Up the Single Life,* Campbell (2008a) examines four case studies of mergers involving human services organizations. Campbell found that in three out of four cases, the leadership of larger organizations was motivated to pursue merger with smaller organizations in order to pursue organizational growth without losing autonomy.

Along with size, organizations that are financially stronger and/or more stable as well as older organizations are more likely to merge. A difference in financial status between or among merging organizations may affect the merger process as well (Campbell, 2008b; Hung, 2009). Financially stronger organizations are able to use their relative power to direct the process, which can create mistrust on the part of the weaker organization and affect the success of a merger. This is because weaker organizations have less power and are more vulnerable to changes and potential takeover. Overall, mergers are not as likely to occur among equally powerful organizations.

1C2. Compatibility (mission/strategy/values/culture) of each organization relative to the other(s)

The compatibility of two or more merging organizations can encompass mission, organizational strategy, and culture. Pietroburgo and Wernet (2010a) refer to this as *organizational fit.* The literature emphasized the importance of considering these features of each organization in relation to each other before committing to a partnership **(**Carroll & Harrison, 2002**;** Dallhoff & Bugg, 2009; Liu & Fehling, 2006; Yankey et al., 2001).

Maintaining an organization's strategic mission is often one of the main motivations to pursue restructuring. In their 2002 analysis of three case studies of nonprofit mergers, Golensky and DeRuiter stated that all of the leaders identified survival of their organizational mission as a primary motivation for merger. Along with this, shared or compatible missions among partners seem to be important for a smooth transition and potentially for the continued success of the partnership (Dallhoff & Bugg, 2009; Golensky & DeRuiter, 2002).

According to Golensky and DeRuiter's analysis (2002) of the case studies mentioned above, the case with the least disruptive transition was the merger led by executive directors with a shared sense of mission. In their study of large federated organizations that had undergone some form of restructuring, Dallhoff and Bugg (2009) also found that, "having a compatible mission and developing a common vision [was] by far the most often cited key success factor" (p.16).

In agreement with this, one key informant commented, "If you see an out-and-out positive opportunity to maximize your mission with another organization with complementary strengths and weaknesses that is an indicator [of being ready to merge]."

While the impact of culture is often underestimated, selecting partners with similar or compatible cultures can be important to allay transitional tensions in the long run (Buono & Bowditch, 1989; Carroll & Harrison, 2002; Liu & Fehling, 2006; Yankey et al., 2001). Aspects of organizational culture may include, but are not limited to, "core values, 'corporate' image, dominant leadership style, formality of work environment, decision-making style, and external stakeholder engagement" (Yankey et al., 2001, p. 40).

In outlining lessons learned through a four year study of 65 organizations, Yankey et al. (2001) pointed out the importance of cultural compatibility, "The lack of compatibility of organizations' missions, visions, and organizational culture ranks among the leading "deal breakers" in establishing strategic alliances" (p.68).

Judging compatibility among potential partners may also involve overlap in membership and/or client base as well (Pietroburgo & Wernet, 2008; Pietroburgo & Wernet, 2010a). In their examination of mergers in the realm of bowling associations, Pietroburgo and Wernet (2008) observe this tendency:

> The movement of trade and professional associations alike to join the merger bandwagon is occurring as associations experience overlap in many functional areas such as conventions, educational opportunities, lobbying and most importantly, membership. Mergers have emerged as a way to hold on to members and fee incomes as well as remain competitive and relevant in changing association environments (p. 20).

1C3. Positive pre-merger relationship between/among executive leadership

Finally, a pre-merger relationship between agencies, including executive leadership, can aid in the ease of merger transition. When positive relationships exist before a merger, mutual respect that has already developed between leadership of two merging nonprofits can eliminate barriers related to trust that may have existed otherwise (Baulderstone, Presser, & Smith, 2008; Dewey & Kaye, 2007; Ferronato & Perryman, 2003; Pietroburgo & Wernet, 2010a).

Ferronato and Perryman (2003) argue that mergers work well when partnering organizations have already built a "positive working relationship over several years – creating mutual understanding and trust, sharing information, and carrying out joint projects" (p. 6). Dewey and Kaye (2007), in their study of 22 nonprofit leaders, found that in over half of these cases (57%), merger partners had a substantial pre-existing relationship.

In describing a merger of three Australian nonprofit organizations, Baulderstone et al. (2008) emphasize that what was different for this merger compared to others in the literature was the…

> *existing relationships between executive staff* in the organizations and the very early engagement of staff in the process through workshops and working parties. This is likely to have facilitated the achievement of the merger in a very short timeframe and to have assisted in the first stages of building a new culture for the organization (p.79).

1D. Leadership

The final pre-merger category of factors is leadership, which includes the presence of strong and committed leadership during this stage and a turnover in leadership as an impetus to merger activity.

1D1. Presence of strong/committed leadership (individual or group)

One theme that emerged from the literature was the importance of strong and committed leadership to initiate and drive the pre-merger process (Dallhoff & Bugg, 2009; Kavanagh & Ashkanasy, 2007; Kohm & La Piana, 2003; Pietroburgo & Wernet, 2007; Pietroburgo & Wernet, 2010b). This includes an individual as well as a core group that guide the development of the merger. Pietroburgo and Wernet (2008) emphasized the value of this:

> The importance of a leadership nucleus cannot be overstated. The work of a merger will be borne, nurtured, and driven by a core leadership team (p. 5).

Pietroburgo and Wernet (2007) described this key person or team of individuals as the *"catalyst leader."* In other studies, it is referred to as the "merger champion." Whatever term is used, certain attributes of the catalyst leader or merger champion are stressed throughout the literature. Aside from being strong and committed, other important characteristics of this person include having a clear vision, being guided by more than self-interest, having specific experience and skills, and being willing to take risks.

This unique combination of belief in the value that the merger will bring to the organization and community, along with previous experience related to merger, is essential for the merger to occur and succeed but is wholly different from the skills related to service delivery (Dallhoff & Bugg, 2009). A high level of commitment is needed because merger related activities at this stage can take a significant amount of time and should be built into regular work. Dallhoff & Bugg (2009) also recommend leadership with the ability to set aside individual ego and move towards a shared organizational vision. On this topic, one focus group participant said, "It takes vision for a leader to see that it can be something different. The leader may need to see that they are not involved in the end result."

In their compilation of research and consulting work, Kohm and La Piana (2003) report some of the specific roles that catalyst leaders must play at this stage. Some of these include facilitating collaboration, making difficult decisions based on mission, and gaining respect. Pietroburgo and Wernet (2007) describe the many roles that leaders must play during the pre-merger stage in this way:

> There must be an individual within the organization (usually a board leader or staff executive) who serves as the catalyst in moving the merger forward. The catalyst leader serves a number of vital roles in the merger transaction. The leader is the one that identifies the need, begins the serious dialogue with those who are instrumental to action, functions as an architect of the merger, and serves as the chief salesperson to the critical constituencies of boards, staffs, and memberships (p.10).

Whether it is executives, board members, or managerial staff who take this leadership role during the pre-merger stage will vary by organization. The specific roles they can play, however, are more limited (Campbell, 2008b).

Pietroburgo (2004) first proposed that the dominant decision making style of an organization's leadership affects whether or not an organization considers or pursues merger. In their joint studies of hospice organizations, Pietroburgo and Wernet (2004; 2010a) found a difference in perceptions of the decision making style of the executive director and board. Among organizations that did choose to restructure, the executive director was more often seen as adaptive while the board was viewed as having a more reactive style.

Also in relation to leadership style, Pietroburgo and Wernet (2004) found the presence of an *entrepreneurial leader* among organizations that chose to restructure, explaining that "[t]he existence of an entrepreneurial leader with a strategic vision enabled these organizations to act independently and with resolve" (p. 134).

1D2. Executive turnover and the need for skilled leadership is a motivation for merger

When discussing reasons for pursuing merger, much of the literature cites executive turnover and the need for skilled leadership as a primary motivation (Dallhoff & Bugg, 2009; Dewey & Kaye, 2007; Pietroburgo & Wernet, 2010b). An opening in an executive position often precipitates consideration of this type of strategic restructuring.

This phenomena, coupled with an apparent shortage of skilled leadership staff within the sector, increases competition for experienced personnel that have not only a passion for the type of work but also the necessary level of managerial and other needed expertise (Dallhoff & Bugg, 2009; Kohm & La Piana, 2003).

The focus group participants provided some insight on the crisis situations that can lead to organizations being ready to merge, including the departure of an executive director.

> I don't know how you get organizations to be ready to change until they had some kind of an "Oh my God" factor such as the executive director resigning, or gotten sick, or been pulled out; but something happened [that leads to] an intervention.

As mentioned, a lack of skilled nonprofit leadership, both executive and board, leads many nonprofits to merge either to take advantage of the leadership skills of existing organizations or to attract new prominent community leaders. Organizations are often especially interested in bringing in skilled managerial staff, which is viewed as in short supply within the nonprofit field.

For example, a focus group of 22 nonprofit leaders on the subject of merger found that in several cases a leadership vacancy, especially executive, began the merger conversation and was even seen as a positive opportunity, as having just one executive would lessen common challenges related to who would lead the merged organization (Dewey & Kaye, 2007). In support of this concept, one key informant said, "If one [executive director] is at the end of a career – that makes it easier." One of the Dewey and Kaye's (2007) focus group respondents described their organization's experience:

> A similar-sized organization lost its executive director and we felt it would be a good time to open the discussion of a possible merger of some kind since the agencies share similar missions, staff size, and programming (p.3).

Stage 2: Merging process

The merging process focuses on how, and under what conditions, organizations work together to complete the legal, financial, managerial, and cultural combining of their organizations. The merging process factors identified as influencing the success of a merger fall into the categories of key stakeholder involvement, the role of staff in the merger process, the integration of formal and informal structures, and the due diligence that goes into the process.

2A. Key stakeholder involvement

An important aspect of the merging process is identifying the involvement of key stakeholders. The factors examined within this category are the role of the executive staff champion, the commitment of the board, and the involvement of clients, consumers, and funders.

2A1. Executive staff champion

A previous section of this report discussed the importance of leadership as a pre-merger condition. Leaders continue to play an important role during the merging process stage. There is consensus that mergers will be smoother if leadership has a positive attitude about the merger process and if there is leadership staff that is committed to the merger, serving in the role of a merging champion who promotes the merger and pushes to make it happen (Ferronato & Perryman, 2003; Pietroburgo & Wernet, 2010b; Wasserman, 2004).

In describing findings from case studies, Campbell (2008b) reports, ”In each case, there was at least one key leader, defined as a person credited with making the interorganizational restructuring happen, with a vision of its value to the organizations involved and to the community” (p. 236).

Participants of the focus group also spoke about a need for “agents of change” to be involved in the merging process. This refers to the importance of executive directors or board members who see the importance of the mission and are willing to make changes to promote the vision of a better future. One key informant commented, “I think it works best when there is a clear leader, with a consensus between the two boards behind one leader.”

2A2. Board commitment to the merger process

Boards of directors are important to the operating success of nonprofit organizations and they should lead or be an integral part of a merging process (Dallhoff & Bugg, 2009; McLaughlin, 2009). In fact, Pietroburgo & Wernet (2004) argue that not involving the board can impede the merging process.

The results from Campbell's (2008b) case studies indicate that the boards became central to the merging process. Some ways boards have been involved include helping to choose the merger partner, voting on staff recommendations, and voting to approve the full merger (Dewey & Kaye, 2007).

Different articles cited examples of ways to help make the best use of the boards' time and expertise by developing a board committee to be involved in the merger. One article describes a merger that involved a board working party that made decisions, provided leadership, and communicated with staff (Baulderstone et al., 2008). Another highlighted a joint task force of board members from the two merging agencies who made all the decisions (Basinger & Peterson, 2008). In support of a small board committee, Toepler, Seitcheck, and Cameron (2004) believe that having a large number of directors from both organizations, rather than a small working group of intimately involved merger champions, increases the likelihood of procedural mistakes and escalation of tensions.

The following quote from a focus group participant supports the idea of involving the board, especially in term of an active committee.

> I think it's been said already but it bears repeating that the board has to be involved. If the board is not engaged in the process from the beginning, you get really far down the road and it can just be a disaster. So an engaged board, more than just the board chair, but an engaged board committed to working on the process of having them all at the table from the beginning is really critical.

In describing the need to involve boards, one key informant said, "It is a disaster if you haven't included the board from the beginning."

2A3. Client, consumer, and funder involvement in planning

Nonprofit mergers affect a variety of stakeholders including clients, consumers, and funders. In their 2001 article, Yankey et al. discuss the importance of keeping consumers, referral agents, funders, and donors apprised of progress throughout process. "Their support, during, before, and after was essential to success [of the merger]" (p. 66). Similarly, Ferronato and Perryman (2003) discuss the importance of involving clients:

> It is also important to listen to clients' or consumers' perspectives. They may not have much interest in program administrative issues or organizational development and sustainability questions. However, they know much about what they want and need (p. 14).

During the focus group, one participant clearly echoed the need to talk to constituents, preferably early in the process, as a way of strengthening the bonds between the merging organizations. Specifically, the participant pondered, "If the two organizations would really have a chance to go out and talk to their constituents, the people they serve, and find out what the people wanted and what kind of services they're looking for, that might be another way to pull them closer together early on in this process."

Two articles also stress the importance of having funders involved (Dallhoff & Bugg, 2009; Cortez et al., 2009). Cortez et al. argue that funders should go beyond being involved in the merging process, but that they should help by serving as the role of matchmaker for mergers. The authors suggest that funders can "create a more efficient 'organizational marketplace' through which nonprofits can explore potential merger options safely and receive support in making sound decisions" (p. 11).

The key informants agreed that involving the community is important. One person commented, "Community stakeholder buy-in is also essential. The community that funds the organizations needs to know about it and support it, and believe that it is good for the community." Another participant (a Twin Cities United Way vice-president) voiced a strategy regarding funders. They recommended that each organization considering a merger sit down with their top-five funders and offer each a stake in the merger, including incorporating their opinions regarding the form and structure of the new merged entity. This respondent felt that it was important to identify and secure 80 percent of program revenues needed for ongoing operations prior to the completion of a merger and, for this purpose, an early discussion with funders was essential.

2B. Role of staff in merger process

Another category of factors in the merging process is the role of staff. Specific factors include staff involvement, communication with staff, and staff's perception of the effects of the merger.

2B1. Staff involvement in planning

Because the success of the daily operations of a nonprofit organization is so dependent on the work of the front-line staff, it is logical that their involvement could increase the likelihood of success of a merger. This is clearly explained in the literature, both in situations where staff of all levels were involved in case study mergers (Baulderstone et al., 2008) or as a suggestion of the importance of bringing in staff “from the field” to solidify the merging process (Pietroburgo & Wernet, 2010b).

Ferronato and Perryman (2003) also talk about educating and involving the staff in the merger process as well as the need to build a critical mass of support from staff. They also refer to the fact that mergers can trigger resistance to change:

> Involve people who will champion the deeper partnership or merger, as well as those likely to resist (p. 10).

Since many nonprofit staff operate at capacity, with limited spare time in their work day, one of the issues of involving staff in the merging process is the time involved. Wasserman (2004) states that most successful mergers had staff time specifically allocated to partnership activities.

However, the need to devote staff time and energy into the merging process can be hampered by staff members knowledge, slow the decision making process, and decrease the efficiency of the merger. Baulderstone et al. (2008) state, “Collaborative decision-making did not always lead to the most effective systems and procedures” (p. 78), and then continue with, “Involvement of staff in the early stages can be difficult as some will not have the background or capacity to discuss complex, hypothetical issues” (p. 78).

Despite this, in an article describing people’s perceptions of a merger based on their involvement in the process, Basinger and Peterson (2008) argue that the importance of involving staff and having liaisons between the process and the staff not involved outweighs the inefficiencies:

> Clearly, efficiency concerns in working to accomplish the desired result prohibit universal participation, but focusing exclusively on efficiency and results to the exclusion of all else has costs (p. 254).

2B2. Communications with staff throughout process

While it may not be practical to always include staff in the merging process, maintaining communications with the staff is an important factor in the success of mergers. Yankey et al. (2001 & 2005) suggest it is critical to have open communication with and involvement of staff at all levels. Likewise, Campbell (2008a) states that it is essential to have continuous communication with staff as well as the board. The focus group participants also supported the idea of communication with staff during the process.

To facilitate contact with staff throughout the process, the literature suggests staff meetings (Taylor, Austin, & Caputo, 1992), employee websites (Linse, 2010), or staff forums that allow staff to express views and hear from members of other agencies involved in the merger (Baulderstone et al., 2008). Baulderstone et al. also state that the focus on people issues can be a key element of success for mergers, which can be enhanced with careful and ongoing communication and support for staff.

One focus group participant spoke emphatically about the need for communication with staff:

> Regardless of what your mission is and what the services that you deliver are, the fact of the matter is that within the merger activity there is staff and board, they are people and they need to be communicated with.

Keeping staff informed throughout the merger process has positive effects for the merging organizations. Buono and Bowditch (1989) state:

> [E]mployees provided with realistic merger previews maintain much more stable levels of commitment, satisfaction, trust, and performance than do those who receive less open information about the combination (p. 132).

Supporting the benefits of communicating with staff, Golensky and DeRuiter (2002) state that not communicating with staff during the merger process can have a negative effect. More specifically, Linse (2010) presents an argument that lack of communication can lead to employee fear of job loss and other negative effects.

2B3. Staff's perception of the effect of the merger

Another factor associated with involving staff in the merging process is the staff's perceptions of the effects of the merger. During the process, managers need to be aware of how sudden changes throughout the merger can have an impact on employee satisfaction and commitment, how stress is cumulative in nature, and how small aspects of a merger can cause high amounts of anxiety (Buono & Bowditch, 1989).

During a merger, changes in staffing can be a factor (Golensky & DeRuiter, 2002; Linse, 2010). To help ease the stress and pain of staff losses because of a merger, Buono and Bowditch (1989) suggest that it is best to give employees accurate information regarding the potential outcomes of the merger on the organization and individuals. They argue that it is worse to tell employees there will be no staff layoffs in order to gain initial support of the merger.

How staff perceive the merger can directly relate to their involvement in the merger process. In their case study, Basinger and Peterson (2008) report that staff members who participated in the merger process reported it was a positive open process, whereas those who were not involved or did not have access to liaisons during the process viewed the merger more negatively.

Because mergers can be stressful to staff, it is important to give people the opportunity to "celebrate the past, give people opportunities to grieve and let go, create temporary systems and structures to give people a sense of home, and communicate the vision for the future" (Ferronato & Perryman, 2003, p. 14).

2C. Integrating formal and informal structures

As organizations engage in the merging process and consider the organizational characteristics they may want to preserve, they often consider factors related to cultural integration and board and mission integration.

2C1. Attention to cultural integration

One element of cultural integration is organizational culture. La Piana and Kohm (2003; p. 20) define organization culture as "some combination of policies and procedures, professional philosophies, employee dress, meeting frequency and attendance, and the types of relationships that exist between and among management and staff."

Linse (2010) and Yankey et al. (2001) point out that organizational culture is an important part of integration and should not be ignored in a restructuring. Likewise, a focus group participant commented, "What is important early on is that you have to be very cognizant of how powerful culture is and that cultures can be so very different." However, merging cultures of multiple organizations can be a key challenge (Dewey & Kaye, 2007). Buono and Bowditch (1989) present, "the task of coordinating and integrating different organizational cultures is one of the most demanding, complex, and problematic aspects of mergers and acquisitions" (p.162).

One way to address cultural integration is to start early in the process and make a conscious attempt from the beginning of the merger process to carry over elements of culture from each of the previous organizations. Baulderstone et al. (2008) state, "Developing a shared culture needs to start early in the process and must continue for some time after the formal merging of organizations" (p. 79). Likewise, Pietroburgo and Wernet (2007) suggest:

> The delicate merging of organizational cultures can be facilitated by paying attention to preserving key cultural elements from each of the predecessor associations (p. 13).

In the same article, they suggest that allowing time for people from each organization to interact in the process should help to integrate the cultures. Likewise, Gleibs et al. (2008) report that "mergers need interventions that support members of both/all organizations and take into account problems that occur at different points" (p. 1109).

Pietroburgo (2004) suggests that cultural differences can impede action during a merger. Pietroburgo and Wernet (2010a) show that culture was cited by organizations as a reason they did not consider merging.

Focus group participants also mentioned cultural integration affecting the success of nonprofit mergers. One said it is helpful if organizations have similar cultures as they merge:

> The cultures of the two organizations [must be] similar because the barriers to combining day to day operations are highly overwhelming. I think you can have strong programs or duplicate programs, but the ways the organizations see themselves, view their work, and keep their work is so different that it's just not going to work to bring it together.

A key informant agreed, stating the importance of "understanding the culture of both agencies and looking at how to intentionally develop the culture of the combined organization – at the time of the merger and quite awhile after. Culture is very important."

2C2. Attention to board and mission integration

Another factor within the category of integrating formal and informal structures is the integration of the board and the mission. As mentioned earlier, preserving the mission or vision of an organization is one of the primary reasons organizations consider merging. Therefore, it is important that organizations considering a merger have similar missions (Pietroburgo, 2004) and identify a shared vision or mission as they go through the merging process (Yankey et al., 2005). Pietroburgo and Wernet (2007, p. 12) agree that "existing or new missions or strategic goals must be in agreement. Furthermore, there must be a sense that the vision for the future is something that the prospective partners cannot realistically or optimally achieve individually."

Focus group participants and key informants also spoke about the importance of mission and of forming a mission that serves the combined entity. One participant said:

> I strongly advocate that you have to get both sides to step away from their individual missions, and really think about and dream about what the vision can look like for this combined organization.

Integrating boards from different sized organizations can lead to conflicts over which duties should be performed by members of the board (Toepler et al., 2004). Furthermore, Baulderstone et al. (2008) describe a case where the involvement of equal numbers of board members from each merging organization resulted in an imbalance of skills on the board, leading to subsequent loss of board members and the need for new recruitment (p. 78).

To help integrate the board, Pietroburgo and Wernet (2007) recommend building opportunities for board members to interact informally and get to know each other.

> If a merger is to be successful, key parties must be afforded ample opportunity for face-to-face, informal interactions that build trust on a personal level. Social capital must be built between key parties [board members] and this is often orchestrated by providing informal opportunities for individuals to 'break bread' outside of the formal merger negotiations (p. 12).

In answer to a question about the essential ingredients of a successful merger, a key informant stated that "compatibility in vision and of style of the boards, [and] having mutual confidence both boards are looking after similar values" were important.

2D. Providing due diligence to the process

Having a clear decision making process and a clear and realistic time frame for the merger are two strategies identified as providing due diligence to the merger process.

2D1. Clear decision making process

To establish how the merger is going to take place, it is important to develop a strong and detailed plan for how to combine the operations of the two organizations. The plan must include details on how board, leadership, and organizational administration will be affected during the process *and* after the merger is completed, as well as information on how constituents will be affected by the merger (Focus group and key informant interviews). Singer and Yankey (1991) include a written plan as one of the five elements needed for a merger. Linse (2010) also emphasizes that planning is essential and advises that the plan should focus on the mission of the organizations. Hung (2009) also comments on the importance of mission and states that it is important for organizations to be honest about their goals and expectations of the merger.

The participants in the focus group and key informants felt that while the planning process may be different for each merger, it was important for all of the merging parties to agree to a defined process. They encouraged seeking assistance from a facilitator to help develop the process with specific decision-making points. For example, the merger plan described in one case study included a cost-sharing agreement, a project plan, a plan for training, advice from consultants, a due diligence process, and a plan for other legal and structural changes (Baulderstone et al., 2008). The focus group participants and key informants also suggested that elements of the plan should represent wins (i.e., what they stand to gain) for both organizations coming together as part of the merger.

The focus group participants had a lengthy discussion about the necessity of conducting due diligence regarding finances and fiscal circumstances during the merging process. For example, they spoke about the importance of looking at each organization's financial statements independently, as well as together, in order to get a clear picture of the liabilities, assets, and revenue projections of a merged organization. One key informant commented:

> Do your due diligence in understanding the mess that may be there that you will have to pick up. It is better if there is a small team of people who are accountable for due diligence . . . so there is shared responsibility.

Throughout the literature, as well as in the focus group and key informant interviews, strong evidence points to the benefits of having a consultant or third party facilitate the merger process. Ferronato and Perryman (2003) believe that external leadership or facilitation is often essential, while McLaughlin (2009) says that outside consulting or facilitation can save money in the long run. One focus group participant said:

> I think one universal value the consultant or facilitator brings to this process is to create frameworks in which people can make decisions. People who often struggle, are overwhelmed, and are unsure need a structure to make decisions.

Dewey and Kaye (2007) suggest that a merger consultant can serve as a neutral party, and Baulderstone et al. (2008) advise merging entities to use expert advisors but ensure that decisions are 'owned' by the participating organizations. Focus group participants and key informants also stated the importance of consultants not being overly formulaic, and allowing for the differences in organizations. Participants also stressed the importance of having a consultant who is not biased to any of the merging organizations.

In describing the role of a consultant in a merger, Toepler et al., (2004) state:

> For the two organizations [assistance through a consultant] provided a neutral, third-party view of the problems and issues created by the merger and proved instrumental in organizing the process. The consultants began to lead the two boards through the policies needed for the merger (p. 101).

2D2. Clear and realistic time frame

Patience in the merging process is important because it will take longer than expected, so it is important not to underestimate the time line of a merger, allow time for the process to happen (Hung, 2009; Linse, 2010). The focus group participants and key informants suggested that a consultant or facilitator can help develop a time line for the process.

Yankey et al. (2001) remind merging entities that alliances take time and hard work and that they need to allow adequate time to develop relationships and work through issues. Likewise:

> Appropriate time periods must be allowed for precursor partnering, merger discussions, negotiations and implementation in order to allow for the building of relationships, the establishment of processes that facilitate collaboration and addressing of legal, financial, and operational details or merging (Pietroburgo &Wernet, 2008, p. 69).

The length of time for a merger can vary. In their study of 22 mergers, Dewey and Kaye (2007) report mergers lasting from less than six months to two years, with the majority of organizations embarking on a 6 to 12 month process. As a caution to rushing the merging process, the literature points out that a reduced timeline can mean that staff end up having reduced input in the process (Golensky & DeRuiter, 2002).

Stage 3: Post-merger

During the post-merger stage, the merged entity begins to operate as an independent organization. The post-merger conditions identified as influencing the success of a merger include the funding and support of the new entity, the services provided to the community, the climate and culture of the new organization, and the organization's capacity and structure.

3A. Funding and support

Once the merger has taken place, the focus turns to the ability of the organization to operate effectively. This set of factors looks at the financial stability of the organization post-merger as well as how the organization is perceived in the community.

3A1. Merger strengthens the financial stability of the organization

While a merger may not save organizations money, it is hopeful that the reorganization will lead to financial stability. However, there is little literature about the after-effects of mergers and the literature about financial stability is frequently contradictory.

The literature mentions that financial stability can be a positive outcome (Singer & Yankey, 1991), that cost efficiencies can follow a merger (La Piana, 2010), and that integrated organizations can have improved financial status (Pietroburgo, 2004; Pietroburgo & Wernet, 2010a).

Dewey and Kaye (2007) report that following a merger, some organizations were able to save money and leverage additional funding. Baulderstone et al. (2008) state, "Merger prevented competition for funding between organizations that had a history of collaboration" (p.77).

Financial stability can occur because of cost savings due to employee sharing and staff reduction (La Piana & Kohm, 2003) or because of increased earned income (Linse, 2010). Another way to measure financial stability is how the organization is perceived by funders. Based on their case-study research, Baulderstone et al. (2008) comment:

> [The] new organization has resources for more professional management than any of the original organizations could have afforded, something which is more important in the new, more competitive funding environment (p.77).

However, some literature reports that mergers have minimal, negative, or delayed effect on the financial stability of an organization. For example, Linse (2010) reports organizations had some decline in fundraising efficiencies the first year after merger.

In contrast to their previously stated findings, Dewey and Kaye (2007) also report that their focus group participants commonly mentioned decreased foundation funding as a result of mergers:

> Several participants revealed that their foundation funding had decreased from the levels they received prior to merging. One respondent said that of all the foundations he dealt with, 'only one didn't cut us in half.' (p.6).

Focus group participants also talked about the financial stability of an organization post-merger. They commented that financial stability is one of the primary outcomes of merger. However, they acknowledged the uncertainty about future funding when the organizations have similar funding streams prior to the merger.

3A2. Merger improves the image, reputation, or public support for the organization

How the merged organization is perceived by the community is another post-merger factor. Ideally, a merger should improve the image, reputation, or public support for the organization. The literature argues that alliances, including mergers, can enhance the visibility of an agency (Pietroburgo & Wernet, 2010a) and increase community image

(Singer & Yankey, 1991). However, Linse (2010) indicates that visibility can become a challenge following a merger.

In order to build support for an organization after a merger, one case study describes how the organization designed and publically unveiled a new logo and promoted the organization at a national conference (Baulderstone et al., 2008).

As organizations build support following a merger, one thing to consider is the name of the new entity and how it is communicated to the public, including funders, individual supporters, and clients. Focus group participants stated that this requires serious thought and discussion. They felt that in some circumstances it would be better for an organization to keep its name and advertise the expanded services available because of the merger, while in other situations it might be better to create a new name for the merger organization. Regardless, time should be spent assessing how the public will perceive the changes.

3B. Services

The majority of the currently available research focuses on the merger process and defines success as the completion of a merger. Due to this, there is little evidence regarding the effect that merger has on services provided by organizations. While it is limited in quantity and strength, there is some case study and survey research that has looked at the positive effects that merger may have on service quality, reach, and delivery (Cortez et al., 2009; Linse, 2010; Pietroburgo, 2004; Pietroburgo & Wernet, 2010a; Yankey et al., 2001; Yankey et al., 2005). The factors examined in this section include services that are saved or expanded due to merger and how the quality of existing services improves with merger.

3B1. Merger saves or helps to expand services

While not a finding based on research, there is little to no disagreement that improvement in services should be a key indicator of merger success. One focus group participant expressed it this way, “If a merger doesn’t result in better service, why would you be doing it? I would expect to see those improvements come faster than strong financial and efficiency gains.”

There are some studies that show that nonprofit organizations are able to expand services to a positive end, including referral sources, after merger or other forms of restructuring. This may be expansion into new service areas and/or into new geographic locations (Cortez et al., 2009; Linse 2010; Pietroburgo 2004; Pietroburgo & Wernet 2010a).

In her analysis of hospice mergers, Pietroburgo (2004) reports that “organizations that collaborated noted improved service responsiveness, expansion of services, and enhanced visibility for the agency" (p. 213). There is also case study evidence that suggests positive delivery outcomes related to combined resources resulting from merger and/or other forms of restructuring (Cortez et al., 2009; Linse, 2010).

A case study explained by Cortez et al. (2009) of Arizona's Children Association gives one example of how restructuring based in strategic mission can expand and strengthen services. As a Child and Family Services provider with the mission of "protecting kids and preserving families," leadership pursued acquisitions of organizations with strong reputations in early childhood and prevention work to expand on their current services as a residential treatment facility. The expertise and reputations of the acquired organizations allowed Arizona's Children Association to quickly expand services as they "immediately had credibility in those services and in the communities in which they operate" (p. 6).

As services are expanded into new areas and geographies, merged organizations may be able to increase their market share and/or demand for services. One way this occurs is when one organization mergers with another that has greater visibility in the community and therefore strengthens credibility and, consequently, referrals for services. As in the case of Arizona Children's Association, a larger organization merges with a smaller organization that has access to local markets and, therefore, is seen as more legitimate within communities. This larger organization will be able transition and expand services into these local markets with greater ease (Cortez et al., 2009). In another case example from Cortez et al. (2009), the COO of an acquiring organization discusses this potential to "win access to new markets through existing brands":

> You really need to be perceived as local to have any chance of winning business. The way we do this is to structure a formal partnership with another player locally and preserve its identity. You have to have a big win for both parties in order to come together. We are generally able to help them enhance their performance, access a broader continuum of services and leverage our back office (p. 9).

At times, merger is what ends up saving necessary services by allowing them to continue through integration with another nonprofit (Singer & Yankey, 1991).

3B2. Merger improves the quality of existing services

Cortez et al. (2009, p.5) concur with the importance of enhanced services as a merger outcome in their explanation of the "types of strategic benefits that nonprofits should seek," which include "quality improvements in existing services (improved programs, training, supervision, etc.)" and "improved efficiency in existing services (better utilization of assets, reduced overhead, etc.)."

A participant of the focus group reiterated this point concisely, “Mergers should result in improved service delivery and expanded benefits to the constituents.”

As with service expansion, the majority of evidence that points to post-merger improvements in existing services comes from case study analysis, and shows some evidence for this outcome as well as suggesting a need for further study (Cortez et al., 2009; Kohm & La Piana, 2003; Linse, 2010).

Merger has the potential to allow organizations to reduce overhead through combined resources and to allocate funds towards improving the quality of services (Yankey et al., 2005). These may be financial resources as well as human resources. The added expertise of partnering organization staff and leadership is yet another resource that can improve the quality of services already in place. Linse (2010) provides another example of how a merger between two community arts organizations can improve the delivery of community services by combining resources:

> The merger has established a one-stop-shop experience for the community (including teachers and artists) in which the constituents have benefited and appreciate one less place to go to search for products and programs. Furthermore, the number of people who have used [the organization] post-merger has exceeded budget (p. 44).

In a different case study, Linse (2010) reports on an interview with a CEO involved in the merger between two local chapters of an international nonprofit who claims that through combining resources, service delivery statistics have improved even as overall expenses have decreased.

The following excerpt from Kohm and La Piana (2003) illustrates this common post-merger speculation, however elusive, that some positive difference has been made regarding service quality and delivery:

> Although case study participants generally were not able to point to hard evidence of how they directly profited from their consolidation, many felt strongly that it resulted in financial savings, increased or improved client services, sharing of expertise, improved staff benefits and enhanced organizational reputation (p.15).

3C. Climate and culture

The following section discusses the post-merger organizational culture and climate in two distinct but related themes: first, how organizational identification relates to the post-merger culture, and second, how conflict and morale issues can arise in post-merger organizations.

3C1. Organizational identification

Using social identity theory, Bartels, Douwes, DeJong, and Pruyn (2006, p. 52) describe organizational identification as the "perception of oneness with or belongingness to an organization, where the individual defines him- or herself in terms of the organization(s) in which he or she is a member." In their study of a Dutch police organization that was merging three criminal investigation organizations, they found that pre-merger identification, sense of the utility of the merger and trust in the merger were all predictors of post-merger organizational identification. Trust and utility can be managed during the merger process, however, Bartels et al. (2006, p. 64) argue that pre-merger identification is something that needs to be managed long before the merger. While this research was not done on U.S. nonprofit human services organizations, their research offers promise in understanding this key element of cultural integration following mergers.

Furthermore, Gleibs et al. (2008) suggest that pre-merger organizational identification plays a role in post-merger identification. However, in their research of merging universities, they found this connection mostly applied to those who had strong identification with a "dominant" pre-merger organization and only in the short-term following merger. Together, Bartels et al. (2006) and Gleibs et al. (2008) provide a basis of understanding that the way in which members of the organizational culture identify with the post-merger organization can be affected by their identification with the pre-merger organizations.

In their research of merging telecom companies, Pepper and Larson (2006) note three specific "identity tensions" observed in merged organizations. These include collaboration/competition, assimilation/autonomy, and consensus/command. As part of their conclusions, Pepper and Larson (2006, p. 62) argue that trying to understand the effect of culture, in the broader context, on merger outcomes is inadequate, and instead, their identity tensions provide a more detailed understanding of how cultural integration may impede merger success.

> Although blaming culture for an acquisition's struggles is not wrong, it is inadequate. Culture is too large a concept. Cultural identity tensions, on the other hand, are more descriptive, meaningful units. As Trethewey and Ashcraft (2004) emphasize, tensions are normal and predictable in organizations, especially those organizations undergoing significant change. Tensions are an assumed component of organization cultures. Identity tensions should also be seen as a normal component within cultural change environments, although their specific form is not yet predictable beyond this study. Identity tensions are cultural expressions that help researchers assess an organization's multi-cultural landscape (Nicotera et al., 2003).

Wernet and Jones (1992) also note identity tensions between merging organizations in the form of clashing traditional and conservative organizational cultural styles or environments. Organizations going through the significant changes associated with merger may experience these tensions for the first time because these cultural distinctions are often invisible and exist undetected until they are introduced to opposing cultures (La Piana & Kohm, 2003).

Furthermore, organizational identification is not limited to the internal staff and stakeholders. An organization's external identity, or how external stakeholders (funders, media, donors, etc.) relate to the organization, can be a very real and challenging cultural obstacle for merged organizations (Ferris & Graddy, 2007). The importance of this external organizational identity is explained by La Piana and Kohm (2003):

> Organizational identity is an asset in the external world. It attracts staff, board members, clients, and funders. Some people liken the power of organizational identity to what the corporate world calls 'brand loyalty' (p. 20).

3C2. Conflict and morale issues following a merger

"For organizations that have a long history of independent operation, organizational change must include not only changing structures and processes, but also the merging and melding of embedded cultures" (Pietroburgo & Wernet, 2008, p. 19). Unequal treatment, power, communication, or information sharing are often root causes of conflict and morale issues following merger (Baulderstone et al., 2008; Toepler et al., 2004).

Carroll and Harrison (2002) suggest that cultural integration is dependent not only on the cultures themselves, but also on the organizational demography:

> To see the potential impact of demography, imagine a hypothetical merger between two organizations with dissimilar and highly incompatible cultures. In the first merger, all members of both organizations possess lifetime job security; they cannot be terminated and they are in general expected to remain in their positions until retirement. In the second merger, organizational membership is fluid: members come and go with high frequency. In general, we think that cultural integration should be easier to achieve in the second merger. Why? In our view, the cultural difference in the first merger will likely persist because they can be overcome only by transforming previously enculturated individuals (p. 351).

Those most unhappy with a merger tend to leave and positive perceptions and acceptance of merger tend to rise over a period of time as they buy-into the new organization's identity (Buono & Bowditch, 1989). Buono and Bowditch (1989, p. 165) also suggest that along with getting "buy-in" for the new cultural identity of the organization, the other primary way to affect cultural change post-merger is through "recruiting and socializing new people while removing past members as necessary.” This is not to say that turnover and attrition are the appropriate means of improving culture, morale, or success following merger, just that attention should be paid to organizational structures that promote or inhibit fluidity of “organizational demography.”

3D. Organizational capacity and structure

The two factors related to post-merger organizational capacity and structure are very closely aligned. The first is increased operational efficiencies and economies of scale. The second is structural changes within staffing, management, and governance, and how well these structures reflect the mission.

3D1. Operational efficiencies and increased economies of scale

Organizational increases in capacity are achieved in merged organizations through operational efficiencies (Baulderstone et al., 2008) and increased economies of scale (La Piana, 2003). The distinction is that increased operational efficiencies are the product of a more skilled or better aligned staff in the organization or reduced waste or inefficiencies (including redundant staff), while increased economies of scale are achieved through the greater leverage or volume buying a larger organization has with vendors (McCormick, 2001).

Examples of where merged organizations might see increased operational efficiencies would be in reduced overhead though office consolidation (McCormick, 2001), staff reduction though layoffs or attrition (La Piana & Kohm, 2003), and more specialized or focused financial or administration staff (Baulderstone et al., 2008). Economies of scale efficiencies refer simply to buying and negotiations leverage a larger organization ultimately has (McCormick, 2001). McCormick goes on to explain some of the potential ways an organization can leverage these increased economies of scale:

> To maximize the result of a merger, an organization should begin this process immediately. Actually, negotiating economies of scale “deals” pre-merger is a good idea. The concept is simple: unit cost of certain goods and services is less when unit count increases. Renegotiating service contracts, printing costs, insurance policies, marketing costs, image building items like tee shirts and other logo-related things is a good starting point (p. 103).

Participants in the focus group also spoke of economies of scale and operational efficiencies. One participant spoke about two ways mergers can increase efficiencies:

> We actually see where some economies of scale get along by either [expanding services] to the region, to the state, or to different parts of regions. Also, employ highly educated people in a different way so that money can be used more efficiently.

3D2. Structural changes in staffing, management, and governance

Post-merger structural changes are related to, and sometimes the direct cause for, the operational efficiencies discussed in the previous section; however, they diverge in the sense that structural changes both promote increased operational efficiencies *and* support greater program effectiveness (Baulderstone et al., 2008; La Piana, 2010; McCormick, 2001). This effectiveness can be realized through more professional management and observed, as proxy, through increased diversity of revenue sources in a progressively more competitive funding environment (Baulderstone et al., 2008, p. 77).

La Piana (2010) outlines the value in how changes in structure (or more specifically, infrastructure) are important in the context being able to better provide services to meet the needs of the community:

> A better conceptualization of the problem is not the duplication of services, but the duplication of service provider infrastructures. Each organization employs an executive director, recruits a board of directors, and backs an administrative structure. Each also likely struggles to support information systems, human resource management, and budgeting and accounting processes. Merging organizations to combine their infrastructure often makes sense (p. 30).

Better aligned staff is a key structural change made in post-merger organizations as "resultant merged organization should have more people in mission-critical positions, like service delivery, and mission-enabling positions, like fundraising activities, and fewer in administration" (McCormick, 2001, p. 304). Not only do these structural changes appear to benefit the organization, but they also appear to potentially benefit staff. "Perhaps the most easily discernable benefits of strategic restructuring are the improved compensations and great career opportunities afforded staff members as employees of a larger entity" (La Piana & Kohm, 2003, p. 16).

One focus group participant expressed that beneficial structural changes include decreasing the duplication of staff efforts and increasing the capabilities of staff. For instance, instead of having two bookkeepers, the new organization may employ a financial manager who can oversee more financial issues.

Potential warning signs that a merger is unlikely to succeed

While the focus of this research was to identify factors relevant to the success of nonprofit, human service mergers, it is important to be aware of why some mergers do not succeed. Evidence from the literature and the qualitative data collection indicate that mergers can derail at different times in the process. Most of the reasons cited for failure can be construed as the reciprocal of the factors identified as necessary for a successful merger. Reasons that a merger is unlikely to succeed include:

- Lack of capacity, sophistication, or skill in the board or executive leadership
- Leadership's inability to communicate well or to effectively influence others
- A weak or declining balance sheet or imminent financial collapse of one organization
- Programs or services that are not particularly unique or of distinctive value to the community
- Organization's fear of losing autonomy or change
- Differences in governance, culture, or mission
- Board and staff opposition to the idea of merger
- Engagement purely for survival, not from strength
- People involved do not see the real work involved in a merger
- Loss of key leader during the process

Finally, the focus group respondents indicated that the landscape for nonprofit mergers is different today than it was prior to the recession of 2008. In their eyes, many organizations have grown quite weak in the present economy and are today in an extremely vulnerable position. There was widespread agreement that it would be difficult to carry out effective mergers with organizations that had grown financially desperate as demonstrated by an inability to meet ongoing monthly expenses or the loss of significant revenue sources.

Implications for future research

The purpose of this review has been to add to the current body of knowledge and develop information that is useful to both funders and planners who wish to support the efforts of nonprofits that may be considering a merger or other form of strategic restructuring. As part of this review we were interested in the conclusions that other researchers have come to regarding potential next steps in nonprofit merger research.

Several articles in the literature provided the following suggestions for future research:

- Explore the life cycle of merger or restructuring process (Dewey & Kaye, 2007)
- Measure the impact of strategic restructuring in terms of finances and program service statistics (Linse, 2010)
- Examine the relationship between the perception of environmental threats and opportunities and organizational culture (Wernet & Jones, 1992)
- Explore the role of trust in the decision making and the responsibilities of the process (Campbell, 2008b)
- Study how nonprofit strategies mirror those used in private sector mergers (Norris-Tirell, 2001)
- Continue to research the success factors associated with mergers (La Piana & Kohm, 2003)

The participants of the focus group and key informant interviews also suggested ideas for future research. Those suggestions include:

- Consider the long term changes in financial positions and service delivery after a merger
- Explore the scope of a board's responsibilities (i.e. more governance than operating)
- Investigate failed restructuring events to discover why they did not succeed
- Examine the age and stage of the organization, including the role of executive director, and how that impacts the merger process
- Include more qualitative examination of the process and the culture

In addition, participants suggested that the findings of this study should be shared, most notably with business leaders who sit on boards and support the decision making process, funders who are asked to support the merging process, and nonprofit organizations that can use the information to make more educated decisions about merging.

Summary and conclusion

To summarize the results of this review, this section offers a summary grid of the 30 factors thought to influence the success of mergers identified through the literature review and qualitative data collection. The factors are organized according to the pre-merger, merging process, and post-merger stages. Each factor is included within one of twelve broader categories used to organize the research findings. The following figure summarizes each factor including: the number of citations in the literature, the type of study in which they are cited, and an assessment of the likelihood of being able to effectively measure the factor. Each of the factors identified below has also been reported by one or more consultants, key informants, or focus group participants as relevant to the outcomes of nonprofit mergers.

2. Factors related to nonprofit mergers

Stage 1: Pre-merger	Total citations	Type of study: quasi-experimental, survey research, or simulation	Case Study (N of cases)	Prospects for measurement
1A. Financial soundness of the merging organizations				
1A1. Fiscal stability as a motivation to merge	8	2	6 (27)	High
1A2. Fiscal stability of pre-merger organizations	3	0	3 (15)	High
1A3. The monetary costs of considering and implementing a merger	5*	0	4 (72)	High
1B. External considerations				
1B1. Motivation for organization to stabilize and survive to meet community needs	5	5	0	Med
1B2.Funder pressure to consolidate	11	6	5 (28)	Med
1B3. Increased competition for resources	12	5	7 (41)	Med
1B4. Environmental changes (Including technology, government policies and vouchers)	12*	3	9 (38)	Med

* *Includes practice observation.*

2. Factors related to nonprofit mergers (continued)

Stage 1: Pre-merger (continued)	Total citations	Type of study: quasi-experimental, survey research, or simulation	Case Study (N of cases)	Prospects for measurement
1C.Organizational structure				
1C1. Characteristics of organization (size, operation time, budget)	6*	4	2 (7)	High
1C2. Compatibility (mission/strategy/values/culture) of each organization relative to the other(s)	8*	4	6 (75)	Med
1C3. Positive pre-merger relationship between/among executive leadership	5*	2	3 (7)	Med
1D. Leadership				
1D1. Presence of strong/committed leadership (individual or group)	8*	3	5 (29)	High
1D2. Executive turnover and the need for skilled leadership is a motivation for merger	8*	3	5 (18)	Med
Stage 2: Merging process				
2A. Key stakeholder involvement				
2A1. Executive staff champion	19*	4	12 (105)	Med
2A2. Board commitment to the merger process	11*	2	7 (22)	Med
2A3. Client, consumer, and funder involvement in planning	4*	1	2 (67)	Low
2B. Role of staff in merger process				
2B1. Staff involvement in planning	5*	1	5 (21)	Med
2B2. Communications with staff throughout process	15*	4	9 (84)	Med
2B3. Staff's perception of the effect of the merger	9*	2	6 (22)	Med
2C. Integrating formal and informal structures				
2C1. Attention to cultural integration	17*	4	12 (111)	Med
2C2. Attention to board and mission integration	7	2	5 (18)	Med
2D. Providing due diligence to the process				
2D1. Clear decision making process	16*	3	9 (41)	Med
2D2. Clear and realistic time frame	9*	1	6 (84)	High

* *Includes practice observation.*

2. Factors related to nonprofit mergers (continued)

Stage 3: Post-merger	Total citations	Type of study: quasi-experimental, survey research, or simulation	Case Study (N of cases)	Prospects for measurement
3A. Funding and support				
3A1. Merger strengthens the financial stability of the organization	10*	5	3 (20)	Med
3A2. Merger improves the image, reputation, or public support for the organization	5*	1	3 (21)	Med
3B. Services				
3B1. Merger saves or helps to expand services	5*	2	3 (22)	Med
3B2. Merger improves the quality of existing services	4*	2	2 (4)	Low
3C. Climate and culture				
3C1. Organizational identification	10	3	7 (28)	Low
3C2. Conflict and morale issues following a merger	8*	0	7 (29)	Med
3D. Organizational capacity and structure				
3D1. Operational efficiencies and increased economies of scale	3	1	2 (2)	Med
3D2. Structural changes in staffing, management, and governance	3*	1	1 (1)	Med

* *Includes practice observation.*

This review has identified a wide range of factors thought to influence the outcomes of nonprofit mergers. It has also demonstrated that there are significant challenges to the systematic study of nonprofit mergers including the difficulty researchers encounter gaining access to thorough and complete information about organizational activities relevant to a merger and the absence of well-established measures for non-financial data. In particular, characteristics of leaders and leadership, organizational cultures, service integration strategies, and communication methods have not been measured in uniform ways by the researchers whose work is included in the review. This is less a weakness of the research literature than it is a symptom of the daunting measurement challenges researchers face and the relative youth of the field in comparison to other research areas.

To address these challenges, the authors will use the information about the factors identified here to guide data collection as they conduct a 40-case demonstration study. This proposed work and approach is outlined in detail in a research study proposal prepared by MAP for Nonprofits and Wilder Research entitled *Factors critical to the success of nonprofit mergers* (2010). This proposed study emphasizes:

- The clear operational definition of the key factors thought to influence merger outcomes
- A refined focus on nonprofit human service organizations only
- Triangulation of methods using source documents, administrative data, multiple key informant interviews for each organization, and analysis of pre- and post-merger financial statements
- Instrumentation that builds on the best strategies of previous research studies.

The next planned steps of the research study include: finalizing the sample of merged entities; collecting and reviewing documents such as financial records, 990 forms, and filings with the Secretary of State's Office; completing the data collection protocols; obtaining agreement to be a part of the study; and starting interviews with key individuals associated with mergers from the original organizations as well as the merged entities.

Appendix

Focus group protocol

Key informant interview questions

Bibliography of research literature

Focus group protocol

Merger Focus Group
Tuesday, September 14, 2010
11:30 a.m. to 1:30 p.m.
Wilder Center, Room 2510

Note: The focus group took place on September 14th at Wilder Center. Fourteen people who have been involved in nonprofit human service mergers participated. They represented agency directors, attorneys, and finance and management consultants. The following is an edited transcript of the two hour event.

Welcome:

Now that we are settled in, I want to thank you all for taking the time to join us for this focus group. My name is Greg Owen, and I am a researcher with Wilder Research. Brian and Laura will be taking notes and helping out with some additional questions. We invited you to the focus group to discuss mergers of nonprofit human service organizations. This focus group is part of a larger study of how mergers affect nonprofit human service agencies that Wilder Research is conducting with the MAP for Nonprofits.

You were all invited to the focus group because we know you have an interest in or experience working with nonprofit organizations considering or experiencing major realignment. We are excited that this group will give us perspectives from a wide variety of disciplines.

There are no right or wrong answers in a focus group. Please feel free to share your point of view while also respecting the other participants' views. Everyone will have an opportunity to talk so please do not interrupt each other. Everything you share with us will be confidential. This means we will not share your individual responses with MAP or anyone else. Common themes from today's discussion will be summarized. We will also pull some quotes for the report, but no one will be named or identified in the report.

Before we begin, I would like to ask everyone if it would be okay to record today's discussion. The audio recording helps us accurately capture your thoughts and write up our notes because we may not be able to write as fast as you talk. Is this okay with everyone? Does anyone have any questions? Thanks – let's begin.

Also, throughout this discussion we may use the term "merger" or ""acquisition." While different groups use different definitions of these terms, for the purpose of this focus group, merger and acquisition means bringing at least two organizations together to form one organization.

1. First, please introduce yourself and tell me about your role in guiding or supporting nonprofit mergers.

2. What are the primary indicators that an organization should consider merger? What are the elements in the situation that suggest to you merger is an appropriate path for this organization to consider?

3. What do you regard as the essential variables for a successful merger?

4. In the literature, the factor of an outside facilitator is a very powerful and important role. In your experience, is an outside facilitator or consultant necessary? What kind of advice is offered by the consultant?

5. What are barriers or red flags to a successful merger?

6. In terms of merger outcomes, is the financial stability of the organization a more important outcome than economies of scale?

7. What about the outcome of delivering more services?

8. How important is the naming of the new organization?

9. Is there any difference or would your advice be different if you were focusing exclusively on human service organizations? Are the things that you consider in mergers any different or special with human services vs. any nonprofit mergers?

10. What about funding sources? Would we expect different success rates for mergers when an organization comes from 75% government contracts vs. 75% private donors, and another organization is 75% foundation, and United Way funding? Do you think that the source of the funding for the organization predicts different outcomes for mergers?

11. In terms of selection of merger partners, are there any differences in terms of the likely success of the merger?

12. One of the things that has happened in the last several years is that local aid from the state has diminished with restructuring of county contracts for nonprofits. Has the environment since the beginning of the recession made any difference in the merger landscape from your vantage point? Has it made any difference in the likelihood of success or the factors of success?

13. Are there any other comments on the change in the environment, the motivations, and whether or not these changes have affected the likelihood of the success of a merger?

14. [Note: At this time, the focus group participants received a diagram depicting the stages of mergers.] Take a look at the diagram and tell me what's wrong with it as logic for guiding the study?

15. Do you have any advice for naïve researchers that you think we should pay attention to in this study?

Key Informant interview questions

MAP/Wilder Merger Study
Key Informant Interview Protocol

Introduction:
Thank you for taking the time to talk with me today. As Ron may have explained, we are preparing to conduct a study of mergers among nonprofit human service organizations in Minnesota. In preparation for the study, we are conducting a review of recent research literature on the topic and talking with people who have expertise or relevant background in nonprofit mergers. We expect the interview to take about 30 minutes. Is now a good time to talk?

If yes, thank you. I will be taking some notes during the interview so I may have to ask you to pause occasionally so that I can be sure I get down the details of your response. At the end of the interview I will ask you whether or not it is okay for us to attribute comments to you or if you would prefer that your comments remain anonymous. Shall we begin?

1. Let's begin by you telling me a little bit about your background as it relates to nonprofit mergers? I am interested in what experience you have had working with nonprofits considering merger or in guiding organizations toward this goal.

2. What do you consider to be the primary indicators to an organization that they should consider merger? (Probe: what are the elements in a situation that suggest a merger might be an appropriate path for an organization to consider?)

3. What do you consider the essential ingredients for a successful merger? (Probe: what elements need to be present for organizations to succeed in their merger efforts?)

4. Do most mergers need a consultant or adviser to guide them? What kinds of advice or counsel do consultants provide that help mergers succeed?

5. What are some of the things that represent barriers or red flags for you when you hear about one or more organizations seeking to merge?

6. Do most mergers produce economies of scale or administrative efficiencies once the merger is complete? How long after a merger is complete would you expect that this might happen?

7. Do most mergers result in improved service delivery or expanded benefits for constituents? How long after a merger is complete would you expect to begin seeing expanded benefits or improved service delivery?

8. Is the merger landscape different today because of the recession of 2008? If so, how is it different?

9. Finally I am interested in learning about any advice you might offer to those of us just embarking on a research study of mergers. What are the most important things to pay attention to when trying to identify the factors most likely to predict success for organizations considering merger?

10. One last question. Given all that we have talked about so far regarding nonprofit mergers, is there anything else that you would like to add?

Those are all the questions. As I mentioned at the beginning of the interview, the researchers would like to know whether it would be OK in their report to use comments from this interview with attribution? Or would you prefer that any comments used remain anonymous?

_____ OK with attribution
_____ use anonymously

Thank you again for your time.

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